

Implications of China's Accession to the World Trade Organisation for China and the WTO

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1. INTRODUCTION

CHINA seems poised to accede to the World Trade Organisation (WTO) after a marathon, fifteen-year struggle. Clearly, China's entry will be important simply by bringing a fifth of the world's population into the 'world' trading system. During its accession quest, China has also become a major player in world trade. When it initiated the process, in 1986, its share of world trade was only 0.7 per cent, but this has since risen to over three per cent, and some estimates project it to rise to seven per cent following accession, making China one of the world's major traders (Ianchovichina and Martin, 2001).

In diplomatic terms, China has invested heavily in this accession, and has been willing to make major commitments in order to achieve it. Clearly, accession will have major implications both for China and for the world trading system.¹ Some of the consequences are relatively clear and obvious, while others are less clearly visible, or even totally invisible, at this stage. The purpose of this paper is to try to think through some of the implications.

The problem set in this paper is, on one level, an impossible challenge. It is clear that the long-run implications of a major change such as China's accession to WTO cannot be accurately foretold. As with other such important events, it will not even be possible to fully assess them even after the event. When asked nearly two hundred years later about the long run consequences of the French Revolution, Chairman Mao is said to have observed that it was 'too early to tell'. This will surely be true for a very long time in the case of China's accession to the WTO, where the counterfactual is unclear, and the outcome depends on a

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¹ China was, of course, one of the original contracting parties of the GATT.

complex interaction between policymakers both in China and abroad. However, even if we cannot analyse, we can certainly organise, and a major purpose of this paper is to provide a list of some of the ways in which China's accession will matter. Such a scheme of organisation will, we hope, provide a useful basis for understanding some of the impacts, and for future analysis.

In the next section of the paper, we provide a framework for assessing the implications, and lay out some of the channels through which China's accession to the WTO seems likely to impact on China and the WTO. Then, in subsequent sections, we examine the evidence on those channels of effect.

2. SOME POSSIBLE CHANNELS OF EFFECT

The implications of WTO accession for China can be thought of as operating through at least eight different channels, which we have organised following the mercantilist logic of the WTO. These are:

1. Increased current access to foreign markets.
2. Making market access more secure.
3. Protecting against unilateral changes in the rules by other traders.
4. Ability to seek future improvements in market access.
5. Ability to shape the rules of the trading system in China's interests.
6. Ability to make domestic reforms opposed by special interests.
7. Greater credibility for reform commitments.
8. A need to implement policies required by China's WTO commitments and to make the consequential adjustments to domestic institutions and resource allocation.

Some of the major implications for the WTO as an organisation derive from:

1. An increase in trade coverage of the 'world' trading system.
2. The entry of another major developing country member.
3. The entry of a member with a wide range of market access interests.
4. Additional pressures on the WTO's governance structure.

Each of these topics has many facets and, in the remainder of this paper, we consider the evidence that can be brought to bear on them.

3. IMPLICATIONS FOR CHINA

a. Increasing Market Access

In the mercantilist logic of the WTO, the primary motivation for countries to participate in the world trading system is to obtain access to foreign markets. This

motivation is usually expressed in simple, heuristic, terms, but Bagwell and Staiger (1999 and 2000) give it a more formal interpretation as a means of escaping from a Prisoners' Dilemma created by the adverse effects of trade barriers on partners' terms-of-trade. This perspective is relevant for countries engaged in the exchange of market access concessions after accession, but does not match very well the nature of accession negotiations, which are largely one-sided, with the existing members making few, if any, market access concessions to applicants for membership.

There is one important exception to this principle in the case of China, however. Because China was not a member of the GATT 1947 during the Uruguay Round, it did not benefit from the phase-out of the Multifibre Arrangement quotas on textiles and clothing provided under the Uruguay Round Agreement on Textiles and Clothing. Accession to WTO will bring these benefits to China, through the abolition of these quotas from the beginning of 2005. Although China will be subject to additional textile safeguard quotas until 2008, these will be applicable for only one year at a time, unlike the existing quotas which were, like diamonds, 'forever'.

This increase in market access is particularly important both for China and for the developed countries that have insisted on imposing these quotas. Using a global trade model specifically tailored to study WTO accession issues in China, Ianchovichina and Martin (2001) estimate that, at the sectoral level, the most important impact of accession is on China's output and exports of apparel. Production of apparel is projected to rise by 263 per cent over the ten-year period with accession, compared to 57 per cent in the case of no accession to the WTO. This translates into an increase in China's estimated share of world output of apparel in 2005 from 9 to 20 per cent! China's apparel exports also increase dramatically, rising by 375 per cent over the decade, compared to 45 per cent in the absence of accession. The main reasons for these dramatic increases in output and exports are the lifting of the burdens imposed by the textile quotas on China's exports, and the reduction in the costs imposed on the industry by China's protection.

The expansion of the apparel sector stimulates input demand for textile imports, which are estimated to increase by 272 per cent. The same study also shows that China's accession will lead to a rapid increase in intra-industry trade. The share of China in world trade is expected to roughly double between 1995 and full implementation of the accession commitments. Approximately half of this increase is due to China's accession to the WTO. This increase in market access is particularly important for China, which sorely needs to be able to create additional employment in labour-intensive manufactures to absorb the labour being shed from agriculture in many of its densely populated, but economically lagging provinces. Since 1994, it has suffered relative to other developing-country exporters of textiles and clothing whose quotas have been growing at accelerated rates and who have benefited from the phase-out of their quotas.

Indeed, Ianchovichina and Martin (2001) find that without accession to the WTO, China's clothing industry would have declined as a share of China's economy by 2005. With accession to the WTO, however, China's apparel industry will draw resources in primarily low skilled labour – and dramatically expand its share in total real value added. The same study estimates that accession to the WTO will raise wages for unskilled workers.

b. Making Market Access More Secure

As a non-member of the WTO, China's access to markets on the Most-Favoured-Nation (MFN) basis available to WTO members has always been subject to the prevailing diplomatic and political winds. Any trading partner that so wished could withdraw China's MFN access subject only to whatever conditions were involved in any bilateral agreements between the two countries. For China, this issue has arisen regularly in the context of the annual renewals of China's MFN (or Normal Trade Relations) status in the United States.

Given the substantial bilateral trade imbalance in China's favour, it is likely that China would lose substantially from withdrawal of MFN status by the USA. Arce and Taylor (1997) estimate this loss to be in the order of \$US6 billion per year. They conclude that the United States would lose \$US420 million per year despite the diversion of imports from China to other less efficient suppliers. The loss to the US would be much larger except for a rather peculiar second-best phenomenon in which increasing tariffs on textile imports subject to quotas transforms some of the quota rents that the US is currently giving to China into tariff revenues for the US Treasury. This study does not capture the full costs to the United States, since it ignores the near-certainty that China would retaliate in this situation, ensuring that both sides would lose substantially from such a breakdown in trade relations.

In the event, China's MFN access to the US market has been renewed every year to date, partly because total withdrawal of MFN access has been too dire an instrument to be effective for use against the irritants of the time in US-China relations. However, the annual legislative review has provided a major forum in which only China's policies are subject to scrutiny, and opportunities for critics of China's policies on a wide range of issues.

Once China joins the WTO with MFN treatment extended by all members,² then MFN status must be provided to it except under specific conditions such as those specified in the exceptions clauses of GATT and GATS. China's trade policies will come under a new form of review, in the Trade Policy Review Mechanism of the WTO, where all the trade policies of all members are reviewed in a symmetric fashion.

² At the time China joins, some countries could elect not to apply MFN treatment.

c. Protecting Against Unilateral Changes in Rules

Non-members of the WTO, or members seeking preferential market access, are vulnerable to pressure from their trading partners to meet requirements in a wide range of areas. As the trade agenda has grown to include a wider and wider range of issues, countries' exposure to these pressures has increased, with demands such as those relating to product and labour standards, rules-of-origin, and the protection of intellectual property rights being routinely added to trade agreements. Two notable recent examples include the bilateral agreement between Vietnam and the United States, which included protection for intellectual property beyond that included in the TRIPS agreement, and the US-Africa Growth and Opportunity Act, which includes strict rules of origin on textile exports.

There is considerable controversy about the difficulties experienced by many developing countries in implementing WTO rules in those areas where these rules require the development of new institutions (Finger and Schuler, 2000; and Rodrik, 2000). Requirements that countries go beyond their WTO commitments, in ways that are not subject to review requirements like those prevailing in the WTO, clearly have considerable potential to damage the interests of developing countries. China's membership in the WTO will ensure that China will have to comply only with requirements that have been accepted by the full membership of the WTO.

d. Ability to Seek Future Increases in Market Access

Once it is a member of the WTO, China will be able to pursue its market access interests through negotiations such as those currently under way on agriculture and in services, and the full multilateral round that is likely to be initiated late in 2001. These opportunities will be of particular value to China because it is a large exporter and hence likely to gain the attention of its trading partners in any negotiations conducted on a 'request-and-offer' basis. Since China's pattern of exports is diversified both by commodity and by destination, it will have opportunities to pursue a wide range of interests, and to form coalitions with a range of members in pursuit of these market access objectives.

In manufactures, it has strong market access interests in labour-intensive products such as textiles and clothing, which face serious trade barriers in both developed and developing countries. As a highly competitive producer of textiles and clothing, it is likely to have a great deal of influence both in expanding market access opportunities for these products and in defending against measures that would reduce developing countries' market access for these products. In agriculture, its exports of labour-intensive products face particularly high barriers that restrict China's opportunities to create additional employment for its rural labour force.

TABLE 1
Barriers Facing China's Exports

	<i>Barriers</i> <i>\$m</i>	<i>Tariff rate</i> <i>%</i>
Rice	8	11
Maize and other grains	196	181
Vegetables & fruits	152	13
Sugar	120	43
Beef & sheep	29	16
Other meats	490	21
Other food	404	11
Beverages & tobacco	459	43
Textiles & apparel	7418	11
Chemicals & paper	1746	11
Transport equipment	303	9
Machinery & electronics	2887	6
Other manufactures	1411	6
Total agriculture	2092	32
Total	17578	8

Source: GTAP-4 Database.

The estimates of the average tariff rates facing China's exports presented in Table 1 highlight the importance of barriers to exports of textiles and clothing, and of agricultural products, for China's exports. The first column of the table shows the dollar value of the tariffs³ paid on China's 1995 exports to all the markets in which it sold these products. The second column shows the tariff rate levied on these exports. High tariff rates on substantial volumes are a clear sign that these barriers cause severe market access problems for China. Such barriers are clearly present in cases such as maize and other grains, beverages and tobacco, and sugar. In other cases, the barriers are so severe in key markets that the value of trade is depressed, and exports are diverted to less-attractive lightly protected markets. This problem is clearly present in areas such as rice and clothing. Despite all the *caveats* on these data, one thing that is clear is the much higher average barriers facing China on its exports of agricultural products.

In trade in services, China will have strong interests in labour-intensive services such as construction, and in increasing opportunities for exports of services under the Mode 4 provisions for movement of natural persons. In addition, it seems likely that China will have an increasing interest in the provision of higher skill services in areas such as computer software.

³ These estimates also include the tariff equivalents of non-tariff barriers imposed by the importer, but not the export barriers imposed by export quotas such as those resulting from the Multifibre Arrangement.

TABLE 2
Anti-dumping Initiations per US Dollar of Exports by Victim Economy, 1995-99, Selected Countries

<i>Against ↓</i>	<i>Initiations by All Economies</i>	
	<i>No. of Anti-dumping Initiations</i>	<i>Initiations per US\$ Index (Japan = 100)</i>
Armenia	1	6777
Georgia	1	3909
Kyrgyzstan	1	3737
Ukraine	25	2095
Egypt	6	1608
India	38	1079
South Africa	20	809
Brazil	41	788
China, PRC	137	776
Indonesia	36	691
Korea	75	564
Russian Federation	41	558
Chile	9	554
Thailand	30	509
Turkey	13	502
Chinese Taipei	47	386
Hong Kong, China	11	381
Argentina	8	313
Mexico	20	188
European Union	179	106
United States	66	105
Japan	44	100
Australia	3	56
Canada	10	46
All Countries	1203	268

A particular problem for China is the expansion in the use of anti-dumping measures, both in the industrial countries, and in developing countries that are important markets or potential markets for China. These procedures are WTO legal, but it is clear that current WTO rules on anti-dumping allow barriers to be erected when dumping is absent in any meaningful economic sense. The figures in Table 2, drawn from Finger, Ng and Sonam (2000), show just how heavily anti-dumping measures bear on the export market opportunities of developing countries with diversified exports, such as China, India and Brazil. Particularly striking is the fact that China suffers more anti-dumping measures than any grouping other than the 15-member European Union.

Finger, Ng and Sonam (2000) suggest ways in which anti-dumping measures might be replaced with a safeguard regime that makes economic sense and would reduce the economic damage currently being done by anti-dumping measures. Given the rapid increase in the use of these measures, reducing the damage done

by these measures will be an important potential source of market access gains for China in the future.

Given the operating procedures of the WTO, China will only be able to make progress on improving its market access opportunities in the context of a negotiating round. If a round of negotiations is launched in 2001, China will be faced with negotiating further reductions in its trade barriers while it is implementing its own entry commitments. With a round likely to take at least three to five years to complete, and with reduction commitments from a round likely to be phased in over a further five years, it seems unlikely that there would be much overlap in the required reduction commitments. Since China will be entering with commitments to relatively low tariffs in manufactures and in agriculture, it will have considerably less to 'lose' in a mercantilist sense than many of its trading partners. In areas such as agriculture, it will have much more to gain in terms of market access because of the particularly high trade barriers in many of its neighbours and logical export markets.

e. Ability to Influence the Rules of the Trading System

China will enter the WTO with a great deal of accumulated experience in the arcane workings of the institution. While expertise on WTO-related issues is not yet deep in China, there is an enormous amount of experience in the development and refinement of institutions that work in a low-income country. If China carefully identifies its priorities, prepares its positions, and works in partnership with other members, it will be in a position to have a major impact on the evolution of the rules of the trading system.

One area in which China could have a major impact is on the redesign of rules, like anti-dumping rules, that disproportionately affect the exports of China and other large developing countries. Another would be to help ensure that future changes in the rules do not inadvertently have adverse impacts on countries that are still in the process of developing their institutional capacities. A third would be in helping deal with issues such as trade and labour standards in ways that do not threaten the export opportunities of developing countries.

f. Ability to Undertake Reforms Opposed by Domestic Special Interests

Trade policy in China, like trade policy in other countries, is determined by a combination of assessments about the development impacts of policy, and the power of particular interest groups to influence policies. China has been reforming its trade policies continuously since the late 1970s, with a major emphasis of the reforms being on the transition from a centrally planned to a market-oriented system. Martin (1999 and 2001) and Ianchovichina and Martin (2001) discuss the transition process in some detail.

Much of this transition process focused on the development of institutions for trade policy, such as the tariffs, quotas and licences that were absent or unimportant under the centrally planned system. However, the reform process during the 1990s began with a reasonably well-developed market system for regulating trade.⁴ During the 1990s, China's reform process brought down tariff barriers, and phased out non-tariff barriers very rapidly, with the average tariff rate falling from 42.9 per cent in 1992 to 24.3 per cent in 1997, while the coverage of non-tariff barriers fell dramatically. This new level of protection forms a base from which further reductions will be undertaken as a result of WTO accession.

This rate of reduction in trade barriers is much higher than the average reduction of 24 per cent achieved by developing countries on their imports of manufactured goods during the Uruguay Round (Abreu, 1996, p. 73). Some have even asked whether WTO accession might 'spoil' China by linking its future reductions in protection to the rate of reduction undertaken by its trading partners. This fear seems unfounded, however, because WTO members can always reduce their applied rates by more than the tariff bindings that are the negotiating currency of the WTO. In fact, many developing country members of the WTO did exactly that, and average tariffs in developing countries fell much more sharply than the reductions necessitated by their Uruguay Round commitments (World Bank, 2000).

It seems clear that many of the commitments brought about by China's accession to the WTO would have engendered considerable resistance had they been introduced as cuts in the protection available to individual sectors. As part of the broader package involved in WTO accession, however, they provide benefits, in terms of lower costs, to the affected sectors, and additional benefits to China of the type described in previous sections.

On one level, the accession process might be seen as 'unfair' in that new members are being required to undertake cuts in their protection to levels that are lower than those of some existing members. There is a risk that critics in China will view this as unacceptable on equity grounds and press for relaxation or renegotiation of the commitments. While renegotiation of commitments is possible under WTO rules, widespread use of this approach would reduce China's credibility and dissipate its negotiating capital at the WTO, and impose heavy costs on China's people, in order to benefit a narrow set of interest groups.

The benefits of the liberalisation that China is undertaking are likely to be spread quite widely. Ianchovichina and Martin (2001) estimate that China will receive about half of the total benefits, or \$29 billion annually, mainly as a consequence of increased efficiency. China's other major trading partners, such as Japan, Taiwan (China), the United States and the European Union, also gain

⁴ A significant exception was the presence of a two-tier exchange rate system, which was abolished in 1994.

substantially. In the US and the EU, a major source of these gains is the elimination of the quotas they force China to impose on its exports of textiles and clothing. For a few countries, notably including India and Indonesia, the increased competition from China in product markets outweighs the benefits arising in their direct trade with China.⁵

As China's reform and opening up proceeds, it seems likely that the influence of interest groups on its trade policy will increase. In the case of agriculture, Anderson, Hayami and Honma (1986) have documented a striking tendency for protection in high-growth East Asian economies to increase from negative levels at an early stage of development to positive levels. As farm pressure groups become stronger, protection rates continue to rise, with protection rates frequently reaching extremely high levels, such as the 660 per cent protection enjoyed by rice farmers in Japan in 1999 (Martin, 2000). China's WTO commitments to relatively low and stable trade barriers for agricultural products will clearly make it easier to resist the pressure for future increases in agricultural protection.

g. Greater Credibility for Reform Commitments

Most of China's economic reforms have been undertaken on an evolutionary and experimental basis. While this approach has, overall, been enormously successful, it has involved uncertainty about future policies. Where policy reforms require investments to succeed, it has sometimes been difficult to obtain the needed investment responses. In the earliest days of reform, this problem arose in the agricultural sector, when households' land use rights were granted only for a limited period. It has probably not been such a major problem in the foreign trade sector to date, because almost all foreign trade has been handled either by state-owned Foreign Trade Corporations, or by foreign-invested firms.

As the reforms are deepened, however, and foreign trade and domestic distribution are opened up to a wider range of enterprises, the need for credibility in reform commitments will greatly increase. These activities require substantial investments, and an adequate investment response is unlikely to be forthcoming if there is uncertainty about the conditions in which firms will be able to operate in the future, or even whether they will continue to be able to operate.

h. Implementation and Adjustment in China

WTO accession will require many changes in China's trade and regulatory policies. Some of these, such as reductions in tariffs, can be undertaken at the

⁵ Kathuria, Martin and Bhardwaj (2001) show that the abolition of the quotas on textiles and clothing makes these industries much more competitive, and increases the returns from reforms that increase productivity in this sector.

stroke of a pen. Others, such as ensuring uniform administration of trade laws, will likely involve changes in the relationship between central and local governments (Kewalram, 2001). An important set, including measures such as implementation of the agreement on Customs Valuation, and the protection of Intellectual Property Rights, will require the development and strengthening of institutions. Fortunately, implementation of some of these reforms has already begun, and so much less adjustment will be required after accession than would have been the case if implementation had been delayed until after accession.

The substantial declines in tariff rates in China since 1992 also mean that the adjustments post-accession will be much smaller than would otherwise have been the case. In one sensitive area, agriculture, it is not clear that substantial reductions in protection will be required (see Ianchovichina and Martin, 2001). Ianchovichina and Martin (2001) also point out that the adjustments required by accession will not be large relative to the inevitable adjustments required in any event by China's high growth rates in output and in accumulation of physical and human capital. The one major exception to this is likely to be in the clothing sector where increases in market access and reductions in cost levels resulting from accession are likely to lead to extremely rapid growth.

Clearly, much will need to be done to refine the policy measures that will facilitate movement of resources between sectors. But this need is inevitable, and not merely a consequence of WTO accession.

4. IMPLICATIONS FOR THE WTO

a. Entry of Major Trading Economies

The entry of such a major trading country as China will take the WTO substantially closer to its goal of covering all world trade. This is particularly the case when taking into account that accession of China will clear the way for accession by Taiwan (China) which is another major trading economy. Accession of these two economies will increase the WTO's coverage of world trade by around five per cent. This greater coverage of WTO rules will increase their importance for the world economy, although most WTO members were already giving these economies the benefit of MFN treatment.

This accession is expected to increase the core budget of the WTO slightly, but not automatically, and only to the extent that the entry of China and Chinese Taipei require the provision of additional services. Thus, there is unlikely to be any effective increase in the WTO's very small core budget. Unless the WTO budget is explicitly increased sufficiently to deal with the additional costs of meeting China's needs, the effective budget of the Secretariat will decline.

b. Entry of a Major Developing Country Member

The entry of another major developing country member⁶ has the potential to contribute substantially to the effectiveness of the WTO for developing countries. Historically, the agenda of the WTO, and its GATT predecessor, have tended to be driven by the concerns of the major industrial countries. As noted by Hertel, Hoekman and Martin (2001), this has resulted in an asymmetry where new obligations in areas such as TRIPS were taken on by developing countries in return for the removal of exceptions to fundamental principles such as national treatment and the MFN principle, obtained by the industrial countries in areas such as agriculture and textiles.

The influence of the industrial countries in the WTO derives in large measure from their large trade shares, and their ability to participate fully in the, frequently arcane and intensive, process of negotiations in Geneva. Many small developing countries are barely able to participate substantively in the negotiating process and many are not even represented in Geneva. By contrast, China will have both a large trade share, and the ability to maintain a mission in Geneva that can participate effectively in negotiations across a wide range of areas.

China will undoubtedly be an important participant in the WTO process on a wide range of issues of particular interest to developing countries, such as textiles and clothing and some agricultural exports. It will bring a great deal of experience in the design of institutions that work effectively within the constraints faced by low-income developing countries. Its presence could help design rules that avoid future problems of the type identified by Finger and Schuler (2000) where rules have been based on the adoption of practices that work well in a developed country context.

China is likely to be one of a relatively small number of large developing countries (such as India and Brazil) with a relatively strong delegation in Geneva, with good back-up from its capital, and a large impact through its well-prepared positions on the issues.

c. Entry of a Member with a Wide Range of Market Access Interests

China will be a relatively unusual member in that it will face relatively high tariff barriers in quite a wide range of its export products, and have quite low tariffs for a country at its income level. The high barriers that it faces in a wide range of products, such as textiles, clothing, and agricultural products mean that it will have a great deal to gain from cooperating with other members to reduce these barriers. In some of these areas, its logical partners will be from developing

⁶ We treat China as a developing country on the basis of its income levels as measured by the World Bank.

countries. In others, its logical partners will be industrial countries. This range of interests makes it more likely that a reasonably broad package of reforms emerging from a negotiation will be, on balance, beneficial to China.

Its relatively low barriers mean that it will have less to 'lose' than many other low-income countries, particularly if approaches that involve larger cuts in the highest rates of protection are adopted.

d. Implications for WTO Governance

China's accession to the WTO will exert pressure on the WTO's governance structure in at least two respects. One is in the negotiation process and the second in the dispute settlement process.

In the negotiating process, China is likely to have an assured place 'at the table' in almost any negotiation in which it has an interest. This will place additional pressure on approaches such as the 'green room process' in which subsets of members sometimes negotiate the details of drafts to be presented to the broader membership.

A much more important challenge to the process is likely to come through the implications for the dispute settlement system. China's trade regime has evolved rapidly from a centrally planned to a market-oriented system and some of the vestiges of the centrally-planned system, such as the continued existence of state trading in agriculture, will create some tensions with the market-oriented principles of the WTO. This is particularly likely to be problematic in those areas, such as state trading, where the rules are relatively untested, and in areas such as the safeguards for textiles and clothing, where the specific procedures specified in the accession agreements are not very precisely defined.

Ostry (1998) raises concerns that the dispute settlement process may come under particular challenge because of actions undertaken at the local level and not adequately constrained by laws and rules agreed to by the central government. In response to these concerns, current members have insisted on strong commitments from China on uniform administration of customs, on the elimination of internal barriers, and on increased transparency.

One of the most serious risks to China's successful integration into the WTO would arise if members used the dispute settlement process in an adversarial fashion, and China's policy makers responded by resisting reforms until 'forced' by adverse rulings. The recent use of the dispute settlement mechanism by the major trading powers on issues such as bananas and beef hormones does not provide a good example. If creative and flexible approaches to resolving the inevitable problems of transition are not found, there is a real risk that the dispute settlement process could grind to a halt because of a large number of cases and appeals. China is likely to gain a great deal of experience with the strengths and weaknesses of the dispute settlement mechanism – both in bringing cases and in

responding to them – and would be well-placed to take a lead in designing badly needed reforms in this vitally important area.

5. CONCLUSIONS

China's accession package to the WTO provides China with some substantial advantages. In terms of market access, the most important advantage to China is the promised phase-out of the quotas on textiles and clothing originally introduced under the Multifibre Arrangement. But accession will provide important additional gains on the export side by securing current market access and the rules under which China operates on world markets. It will also provide China with important future opportunities to increase its market access in areas such as labour-intensive agricultural products and textiles and clothing, where exports are currently tightly constrained.

Domestically, the accession negotiations have helped China to bring about a major reform of trade policy that will increase its openness to the world economy in a way that is projected to increase economic welfare and, by raising demand for unskilled labour, to increase the incomes of the poor. The longevity of China's liberalisation commitments is more assured than if they had simply been made without the binding commitments that are part of the WTO process, and the greater credibility of these commitments should help attract investment into the efficient industries that benefit from these reforms.

China will have a major impact on the WTO by increasing the WTO's share of world trade by about five per cent (with Taiwan, China), and by introducing another major developing country with a wide range of interests. The wide range of reforms being undertaken, and the inevitable lack of clarity in some of the commitments involved in China's accession means that there is likely to be a considerable upsurge in dispute settlement activity. This poses some risks for the WTO system if the dispute settlement mechanism is used in a confrontational manner, rather than as a basis for devising agreed solutions to the inevitable trade problems.

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